

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>City of Pontiac General Employees' Retirement System</u>	County Oakland
Audit Date December 31, 2005	Opinion Date April 28, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48037
Accountant Signature 			

City of Pontiac
General Employees' Retirement System

Financial Report
with Required Supplemental Information
December 31, 2005

City of Pontiac General Employees' Retirement System

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Independent Auditor's Report

To the Retirement Board
City of Pontiac General Employees'
Retirement System

We have audited the accompanying statement of plan net assets of the City of Pontiac General Employees' Retirement System (a component unit of the City of Pontiac, Michigan) as of December 31, 2005 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the General Employees' Retirement Board of the City of Pontiac. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Pontiac General Employees' Retirement System as of December 31, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

April 28, 2006

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City of Pontiac

General Employees' Retirement System

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	Fiscal Year Ended December 31	
	2005	2004
Total assets	\$ 489,069,164	\$ 476,831,091
Total liabilities:		
Amounts due broker under securities lending agreement	52,857,655	46,743,999
Other liabilities	754,175	657,582
Total liabilities	53,611,830	47,401,581
Assets held in trust for pension benefits	<u>\$ 435,457,334</u>	<u>\$ 429,429,510</u>
Net investment gain	\$ 23,113,895	\$ 33,722,655
Net securities lending income	100,187	79,396
Contributions:		
Employee - Reinstated members	20,291	9,709
Employer	16,926	13,613
Retiree pension and annuity benefits	16,562,544	14,546,774
Benefits paid in excess of contributions	16,525,327	14,523,452
General and administrative expenses	660,931	226,698
Net increase in net assets held in trust	<u>\$ 6,027,824</u>	<u>\$ 19,051,901</u>

City of Pontiac

General Employees' Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The City of Pontiac General Employees' Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The System has established asset allocation policies, which are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the adopted asset allocation as of December 31, 2005:

Domestic equities	40%
International equities	10%
Domestic fixed income	36%
Global fixed income	8%
Real estate	5%
Cash	1%

Investment Results

While returns were down from the prior year, both the domestic equity and domestic bond markets posted positive returns during the past year. In 2005, U.S. equities were again helped by strong profits, as well as by the expectation that the federal reserve would raise rates only one or two more times during the first quarter of 2006 and may even begin to lower rates by the end of 2006. U.S. bonds were helped by benign inflation reports and continued foreign investment in domestic bonds. The domestic equity market, as measured by the S&P 500 Index, returned 4.9 percent for the year. The fixed income market, as measured by the Lehman Aggregate Index, returned 2.0 percent for the year. The international equity market, as measured by the MCSI EAFE (non-U.S.) Index returned 13.5 percent for the year. The total fund returned 5.44 percent for the year.

The System's total fund return must always be considered in a longer-term context. The asset allocation of each fund is built upon the foundation that the obligations of the System to pay the benefits promised to members and retirees are very long-term obligations. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years.

City of Pontiac

General Employees' Retirement System

Statement of Plan Net Assets December 31, 2005

Assets

Cash (Note 3)	\$ 100,560
Cash and investments held as collateral for securities lending (Note 3)	52,857,655
Accrued interest and dividends receivable	1,856,576
Accounts receivable:	
Due from broker for pending transactions	170,213
Due from GERS VEBA	41,010
Other receivable	10,806
Investments at fair value - Including loaned securities (Note 3):	
Money market funds	9,220,300
Preferred securities	145,677
Convertible securities	75,000
U.S. government agency notes and debentures	27,236,151
Corporate and other bonds	69,382,733
Equities	259,256,365
U.S. government agency mortgage pools	52,706,906
Real estate	16,009,212
	<hr/>
Total investments	434,032,344
	<hr/>
Total assets	489,069,164

Liabilities

Due to City of Pontiac	268,975
Due to City of Pontiac Police and Fire Retirement System	3,117
Accounts payable	482,083
Amounts due broker under securities lending agreement (Note 3)	52,857,655
	<hr/>
Total liabilities	53,611,830

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the required supplemental information)

\$ 435,457,334

City of Pontiac

General Employees' Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2005

Additions

Investment income:	
Interest and dividend income	\$ 13,449,020
Net appreciation in fair value	11,542,640
Investment advisor fees	<u>(1,877,765)</u>
Net investment income	23,113,895
Securities lending income:	
Interest and fees	1,716,985
Less borrower rebates and bank fees	<u>(1,616,798)</u>
Net securities lending income	100,187
Contributions:	
Employer	16,926
Employee - Reinstated members	<u>20,291</u>
Total additions and investment income	23,251,299

Deductions

Retirees' pension benefits and retirement incentives	16,562,544
Other expenses	311,996
Charges from the City of Pontiac - Administrative expenses	<u>348,935</u>
Total deductions	<u>17,223,475</u>

Net Increase in Net Assets Held in Trust for Pension Benefits 6,027,824

Net Assets Held in Trust for Pension Benefits - January 1, 2005 429,429,510

Net Assets Held in Trust for Pension Benefits - December 31, 2005 \$ 435,457,334

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2005

Note 1 - Summary of Significant Accounting Policies

The City of Pontiac (the "City") sponsors and administers the General Employees' Retirement System (the "System") (a contributory single-employer retirement plan) that covers substantially all employees of the City, except police and fire employees.

Reporting Entity - The financial statements of the System are also included in the combined financial statements of the City as a pension trust fund. The assets of the pension trust fund include no securities of or loans to the City or any other related party. At December 31, 2005, there were no investments in any one organization in excess of 5 percent of net assets available for benefits.

Basis of Accounting - The System's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Methods Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals or audited financial statements.

Note 2 - Plan Description and Contribution Information

At December 31, 2005, the date of the most recent actuarial valuation, membership consisted of the following:

Retirees and beneficiaries currently receiving pension benefits and terminated employees entitled to benefits but not yet receiving them	<u>1,302</u>
Current employees:	
Fully vested	179
Nonvested	<u>296</u>
Total current employees	<u>475</u>

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2005

Note 2 - Plan Description and Contribution Information (Continued)

Plan Description - The System provides retirement benefits, as well as death and disability benefits. Employees may receive cost-of-living adjustments as a percentage of their base amount, pursuant to the collective bargaining agreement in effect at their date of retirement. The obligation to contribute to and maintain the System was established by City ordinance and negotiation with the employees' collective bargaining units.

Contributions - Plan members are not required to contribute. The City is required to contribute at an actuarially determined rate. During the year, only the Stadium Authority Division had a required contribution. Administrative costs are financed through investment earnings.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The System is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The System has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all allowable investments under Michigan Public Act 314 of 1965, as amended. The System's deposits and investment policies are in accordance with statutory authority. The System's cash and investments are subject to several types of risk, which are examined in more detail below:

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2005

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had approximately \$1,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy restricts the average duration of an actively managed portfolio not to exceed seven years. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Asset-backed securities	\$ 2,966,645	4.47 years
CMBS	2,492,750	22.73 years
CMO corporate	5,640,729	29.94 years
CMO government agencies	9,512,867	18.41 years
Commercial mortgages	523,145	25.47 years
Corporate	49,163,828	7.52 years
Government	44,634,978	9.72 years
Other	9,089,281	0.08 years
U.S. government mortgages	31,216,706	25.60 years
U.S. private placements	2,149,535	8.31 years

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2005

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy limits investments in domestic fixed-income securities to not less than a B rating for an overall average quality of each high-yield portfolio; the overall quality rating of each high-grade portfolio must be AA or an equivalent rating; for domestic equity investments, the securities must be the equivalent of Standard & Poor's A1 or Moody's P-1; for global bonds, the overall average quality must be AA or higher. As of year end, the credit quality ratings of debt securities are as follows:

Investment Type	Fair Market Value	Moody's Rating
Asset-backed securities	\$ 2,521,341	AAA
Asset-backed securities	323,391	B1
Asset-backed securities	139,604	AGY
CMBS	2,510,407	AAA
CMO Corporate	2,901,050	Unrated
CMO Corporate	2,756,724	AAA
CMO government agencies	9,555,276	AGY
Commercial mortgages	526,038	A2
Corporates and other credit	6,619,606	A1
Corporates and other credit	4,757,098	A2
Corporates and other credit	1,560,371	A3
Corporates and other credit	4,564,941	AA1
Corporates and other credit	5,504,523	AA3
Corporates and other credit	4,123,557	AAA
Corporates and other credit	1,983,695	AGY
Corporates and other credit	3,262,161	B1
Corporates and other credit	2,593,701	B2
Corporates and other credit	531,581	B3
Corporates and other credit	1,455,198	BA1
Corporates and other credit	3,756,717	BA2
Corporates and other credit	4,900,609	BA3

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2005

Note 3 - Deposits and Investments (Continued)

Investment Type	Fair Market	
	Value	Moody's Rating
Corporates and other credit	\$ 695,841	BAA1
Corporates and other credit	806,954	BAA2
Corporates and other credit	1,682,024	BAA3
Corporates and other credit	1,361,509	WR
Government	2,360,027	AA2
Government	9,099,474	AGY
Government	33,730,598	UST
Multinational Fixed Income Fund	33,333,963	Unrated
U.S. government mortgages	32,072,570	AGY
U.S. private placements	56,810	Unrated
U.S. private placements	615,336	B1
U.S. private placements	654,453	B2
U.S. private placements	58,836	B3
U.S. private placements	35,640	BA1
U.S. private placements	359,450	BA2
U.S. private placements	496,470	BA3

Concentration of Credit Risk

The System places no limit on the amount it may invest in any one issuer. The investment in CAPROC, totaling approximately \$11,693,000, represents approximately 2.7 percent of the System's net assets. Two of the 12 members on the CAPROC board are General Employees' Retirement System trustees.

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2005

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system limits total assets in international equities and fixed income funds to 19 percent of the total pension systems market value. The following securities are subject to foreign currency risk:

	Fair Market Value	Mutual Funds	Equity
Australian Dollar	\$ 1,097,665	\$ 1,943	\$ 1,095,722
Brazil Real	48,670	469	48,201
British Pound Sterling	6,511,828	14,913	6,496,915
Bulgarian Lev	12,834	-	12,834
Canadian Dollar	96,753	118	96,635
Czech Koruna	122,923	-	122,923
Danish Krone	423,880	41	423,839
Estonia Kroon	36,744	-	36,744
Euro Currency Unit	17,628,568	11,082	17,617,486
Hong Kong Dollar	404,966	-	404,966
Hungarian Forint	260,244	1,125	259,119
Indonesian Rupian	187,867	-	187,867
Japanese Yen	8,083,879	2,012	8,081,867
Mexican New Peso	219,543	1,378	218,165
New Turkish Lira	2,243,316	-	2,243,316
New Zealand Dollar	68,797	6,291	62,506
Norwegian Krone	964,600	-	964,600
Philippines Peso	98,764	1,061	97,703
Polish Zloty	2,033,202	-	2,033,202
Romanian Leu	266,777	-	266,777
Russian Rubel (New)	92,762	-	92,762
S. African Comm Rand	1	1	-
Singapore Dollar	42,380	1,692	40,688
South Korean Won	551,103	-	551,103
Swedish Krona	1,794,561	-	1,794,561
Swiss Franc	3,648,464	114,996	3,533,468

City of Pontiac

General Employees' Retirement System

Notes to Financial Statements
December 31, 2005

Note 3 - Deposits and Investments (Continued)

As permitted by state statutes and under the provisions of a securities lending authorization agreement, the System lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The System's custodial bank manages the securities lending program and receives cash as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended December 31, 2005, only United States currency was received as collateral.

The System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or custodial bank.

The General Employees' Retirement System and the borrower maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of December 31, 2005 was 56 days. Because the loans are terminable on demand, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2005, the System had no credit risk exposure to borrowers. The collateral held and the fair market value of underlying securities on loan for the System as of December 31, 2005 was \$52,857,655 and \$51,084,831, respectively.

Note 4 - Reserves

State law requires employee contributions to be segregated. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. As of December 31, 2005, the System's reserves have been fully funded as follows:

Reserved for employee contributions	\$ 4,039,718
Reserved for retired employees	154,326,559

Required Supplemental Information

City of Pontiac

General Employees' Retirement System

Required Supplemental Information Schedule of Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/99*	\$ 350,846,897	\$ 209,172,136	\$ (141,674,761)	167.7	\$ 18,747,510	-
12/31/00*	378,063,942	217,942,909	(160,121,033)	173.5	18,728,688	-
12/31/01**	395,743,819	227,901,435	(167,842,384)	173.6	19,887,803	-
12/31/02*	393,214,033	235,422,367	(157,791,666)	167.0	20,039,136	-
12/31/03	394,367,065	247,396,857	(146,970,208)	159.4	20,807,612	-
12/31/04	394,807,254	258,365,787	(136,441,467)	152.8	21,320,477	-

* Plan amended

** Certain assumptions revised

City of Pontiac

General Employees' Retirement System

Required Supplemental Information Schedule of Employer Contributions

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1998	\$ 598,231	165.40
1999	133,572	218.9
2000	175,021	100.0
2001	139,583	119.0
2002	46,888	166.0
2003	10,608	100.0
2004	2,767	392.9
2005	16,926	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age normal cost
Amortization method	Level percent of payroll, closed, and open periods
Remaining amortization period	12 - 20 years
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 9.4%
*Includes inflation at	4.5%
Cost-of-living adjustments	2% (2.5% Court/MAPE) of original amount, subject to a maximum that varies by group

June 23, 2006

To Mr. Charlie Harrison III, Chairman (GERS)
To Mr. Craig Storum, Chairman (PFRS)
To Mr. Ray Cochran, Chairman (General VEBA)
To Mr. Brian Lee, Chairman (Police and Fire VEBA)
To the City of Pontiac Retirement Board's
General Employees Retirement System
and Police and Fire Retirement System
47450 Woodward Ave
Pontiac, MI 48342

Dear Mr. Harrison, Mr. Storum, Mr. Cochran, and Mr. Lee:

We recently completed the audits of the General Employees Retirement System and the Police and Fire Retirement System (the "Systems"), as well as the related VEBAs, for the year ended December 31, 2005. We continue to be impressed with the organized and thorough manner in which Deborah Munson prepared for the audit. Her assistance in preparing the necessary schedules was greatly appreciated. As a result of the audit, we offer the following comments and recommendations for your consideration:

Retiree Health Care Benefits

The Governmental Accounting Standards Board recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid.

The new pronouncement will require the Systems to obtain a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. As a result, funding the contribution on a current basis should reduce the long-run cost. The accounting change will become effective for the Systems for the year ended December 31, 2008. GASB Statement Number 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is effective for the year ending December 31, 2007. This statement impacts the reporting and disclosures made by the plan.

Document Storage

As mentioned in the past, the Systems are responsible for keeping many important documents and records that often cannot be recreated (i.e., board minutes, member files, financial records, etc.). Given the very limited space allocated to the Systems' offices, it is difficult to provide adequate storage. It is imperative that the Systems maintain storage space that is not only well organized, but is also secure and fireproof. We recommend that the Systems review their current operating space and document storage facilities in an effort to improve conditions in order to ensure the safety of the related records.

In the past, we have suggested looking into document imaging and understand the Systems have begun to research various options as they relate to different imaging systems. Document imaging would mitigate the need to retain paper files for extended periods. Documents would instead be scanned to create an electronic backup. Document imaging, while not necessarily a new technology, is being used increasingly as a means to provide a safe and effective back-up solution while maximizing space limitations.

We also continue to suggest that the Systems should consider various aspects of disaster recovery. If there were a fire or other catastrophe and the paper records and/or computer system were destroyed, the Systems should have a disaster recovery plan in place.

Other Accounting Matters

During our testing, we noted various miscellaneous differences between the amounts recorded as receivables/payables from/to other systems. For example, the receivable from the Police and Fire VEBA recorded in the Police and Fire Retirement System is different from the payable recorded in the Police and Fire VEBA. This also occurred in some of the other systems. Although all the amounts were small, we recommend that the Systems go through and reconcile the differences to make sure the receivables and payables mirror each other.

To the Respective Chairmen
City of Pontiac Retirement Boards

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June 23, 2006

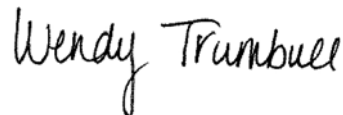
We would like to thank the Systems' staff for the excellent cooperation extended to us during the audit. We look forward to discussing our comments and recommendations with you. If you have any questions or require assistance in the implementation of our recommendations, please call us at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Beth Bialy". The signature is written in a cursive style with a large, stylized "B".

Beth A. Bialy

A handwritten signature in black ink, reading "Wendy Trumbull". The signature is written in a cursive style with a large, stylized "W".

Wendy N. Trumbull